

Message Text

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ACTION EB-04

INFO OCT-01 SS-04 EUR-03 NSC-04 NSCE-00 INR-01 INRE-00

CIAE-00 SSO-00 TRSE-00 FRB-03 ISO-00 /020 W

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FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 2391

CONFIDENTIAL SECTION 01 OF 02 BONN 13901

LIMDIS GREENBACK

DEPARTMENT PASS TREASURY AND FEDERAL RESERVE

E.O. 11652: GDS

TAGS: EFIN, GW

SUBJECT: INTERNATIONAL MONETARY REFORM

1. THE FOLLOWING INFORMATION ON THE CONCLUSIONS REACHED AT THE EC FINANCE MINISTERS MEETING IN VENICE HAS BEEN GIVEN THE FINANCIAL ATTACHE BY VARIOUS GERMAN OFFICIALS. PLEASE PROTECT AND IN PARTICULAR DO NOT INDICATE KNOWLEDGE OF POSSIBLE EC FALL BACK POSITIONS IN CONVERSATIONS WITH FOREIGN, INCLUDING GERMAN, OFFICIALS.

2. FRANCE AGREED IN VENICE TO GIVE UP THE LINK BETWEEN THE GOLD QUESTION AND THAT OF THE FUTURE EXCHANGE RATE REGIME SO THAT AN ATTEMPT CAN BE MADE AT THE UPCOMING WASHINGTON MEETINGS TO REACH AGREEMENT IN PRINCIPLE ON GOLD AND IMF QUOTAS. THIS AGREEMENT COULD THEN BE PUT INTO LEGAL TEXTS TO BE SUBMITTED TO THE C-20 MEETING IN JAMAICA AND COULD SUBSEQUENTLY BE RATIFIED WITHOUT ANOTHER MEETING BY THE IMF MEMBERSHIP. ACCORDING TO OUR CONTACTS FRANCE AGREED AT VENICE THAT IT WOULD NOT HOLD UP AGREEMENTS ON THE LEGAL TEXTS ON IMF QUOTAS AND GOLD AT JAMAICA EVEN IF -- AS SEEMS LIKELY -- NO AGREEMENT WILL IN THE MEANTIME HAVE BEEN REACHED AT THE

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MONETARY SUMMIT ON THE EXCHANGE RATE REGIME.

3. ON QUOTAS THE EC COUNTRIES REAFFIRMED THEIR PREVIOUS POSITION WHICH CALLS FOR A DIVISION OF QUOTAS AMONG THE INDUSTRIAL COUNTRIES REQUIRING THE US TO AGREE TO A QUOTA VERY SLIGHTLY BELOW 20 PERCENT COUPLED WITH A REDUCTION TO 15 PERCENT OF THE VOTES NEEDED TO BLOCK IMPORTANT IMF DECISIONS. THE EC COUNTRIES VERY MUCH HOPE THAT THE US WILL BE ABLE TO ACCEPT THE ABOVE. SOME OF OUR CONTACTS INDICATE, HOWEVER, THAT THE EC COUNTRIES ARE DETERMINED TO RESOLVE THE QUOTA QUESTION AND THEREFORE HAVE AN INFORMAL UNDERSTANDING AMONGST THEMSELVES (WE DON'T KNOW HOW FIRM) THAT IF THEY CANNOT PERSUADE THE US TO ACCEPT THE ABOVE, THEY WILL AGREE TO A US QUOTA OF ABOVE 20 PERCENT AND ABSORB THE DIFFERENCE BY LINEAR REDUCTIONS IN THE QUOTAS OF THE OTHER INDUSTRIAL COUNTRIES. GERMAN FINANCE MINISTRY OFFICIALS ALSO BELIEVE THAT THE UK QUOTA ALLOCATION IN THE EC PROPOSAL IS QUITE GENEROUS AND LEAVES SOME ROOM FOR A UK CONCESSION TO THE US TO BRING THE US QUOTA ABOVE 20 PERCENT. THEY HAVE INFORMALLY MENTIONED THIS TO UK OFFICIALS WITHOUT, HOWEVER, STRIKING A VERY RESPONSIVE CHORD.

3. THE EC COUNTRIES AGREED TO SUPPORT THE SALE OF ONE SIXTH OF THE IMF GOLD WITH THE "PROFIT" FROM THE SALE GOING TO AID TO LDC'S. THE EC COUNTRIES ALSO AGREED ON A POSITION REGARDING THE REMAINING IMF GOLD. THE DETAILS OF THIS POSITION DID NOT BECOME CLEAR IN OUR

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FM AMEMBASSY BONN

TO SECSTATE WASHDC IMMEDIATE 2392

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CONVERSATIONS, BUT PRESUMABLY THEY ARE ALONG THE LINES
REPORTED IN BRUSSELS 6135.

4. THE EC COUNTRIES AGREED TO SUPPORT A POSITION ON
GOLD SALES AND PURCHASES BY CENTRAL BANKS ALONG THE
LINES OF THE ZEIST AGREEMENT, I.E. THE TOTAL GOLD STOCK
HELD BY CENTRAL BANKS SHOULD NOT INCREASE. THE EC
COUNTRIES DISCUSSED AT LENGTH THE US DESIRE TO TOUGHEN
THIS AGREEMENT BY PROVIDING THAT GOLD SHOULD NOT BE
USED IN REGULAR TRANSACTIONS AMONG CENTRAL BANKS OR BY
SOME OTHER MEANS. THE EC COUNTRIES DID NOT SEE THEIR
WAY CLEAR, HOWEVER, TO ACCOMMODATE THE US POSITION --
WITH FRANCE STRONGLY OPPOSED AND NO ONE ELSE VERY MUCH
PERSUADED BY THE US ARGUMENTS. OUR FINANCE MINISTRY
CONTACTS ARGUE THAT THE US FEAR OF A REESTABLISHMENT
OF A DEFACTO OFFICIAL PRICE OF GOLD THROUGH CENTRAL BANK
TRANSACTIONS IS NOT VERY WELL FOUNDED PARTICULARLY
AFTER THE ELIMINATION OF GOLD FROM THE EC SNAKE SETTLE-
MENT BASE AT THE TIME OF FRENCH RE-ACCESSION AND THE
DECLARATIONS BY PRACTICALLY ALL GOVERNMENTS IN ONE FORM
OR ANOTHER THAT THEY FAVOR THE GRADUAL REDUCTION OF THE
ROLE OF GOLD IN INTERNATIONAL MONETARY AFFAIRS. OUR
FINANCE MINISTRY CONTACTS SAY THAT NO ONE REALLY UNDER-
STANDS THE US NEED FOR A FURTHER TOUGHENING OF THE GOLD
RULES PROPOSED AT ZEIST AND, UNLIKE IN THE CASE OF
QUOTAS, NO INFORMAL FALL BACK POSITION WAS AGREED AT
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VENICE. ONE OF OUR CONTACTS WHEN PRESSED DID SAY,
HOWEVER, THAT THE VENICE AGREEMENT DOES NOT ABSOLUTELY
EXCLUDE A RECONSIDERATION OF THE EC POSITION EVEN THOUGH
THE FRENCH ARE "VERY, VERY RESERVED" ON THIS. ACCORDING
TO OUR CONTACTS TO THEIR KNOWLEDGE NO LINK OR PACKAGE
WAS ESTABLISHED AT VENICE BETWEEN AGREEMENTS ON IMF
QUOTAS, IMF GOLD SALES, AND CENTRAL BANK GOLD
TRANSACTIONS.
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